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NEWSPAPER

Forecast and trends: 1988's big questions

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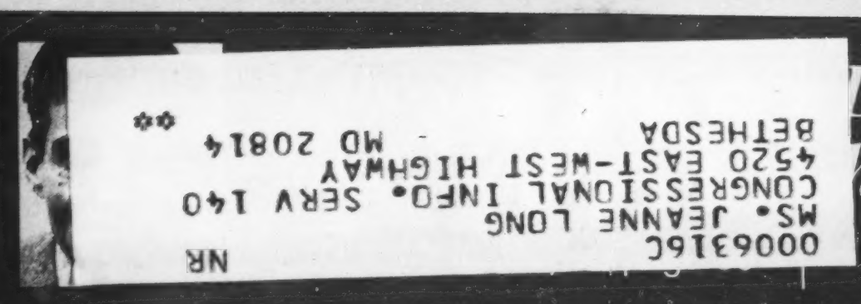

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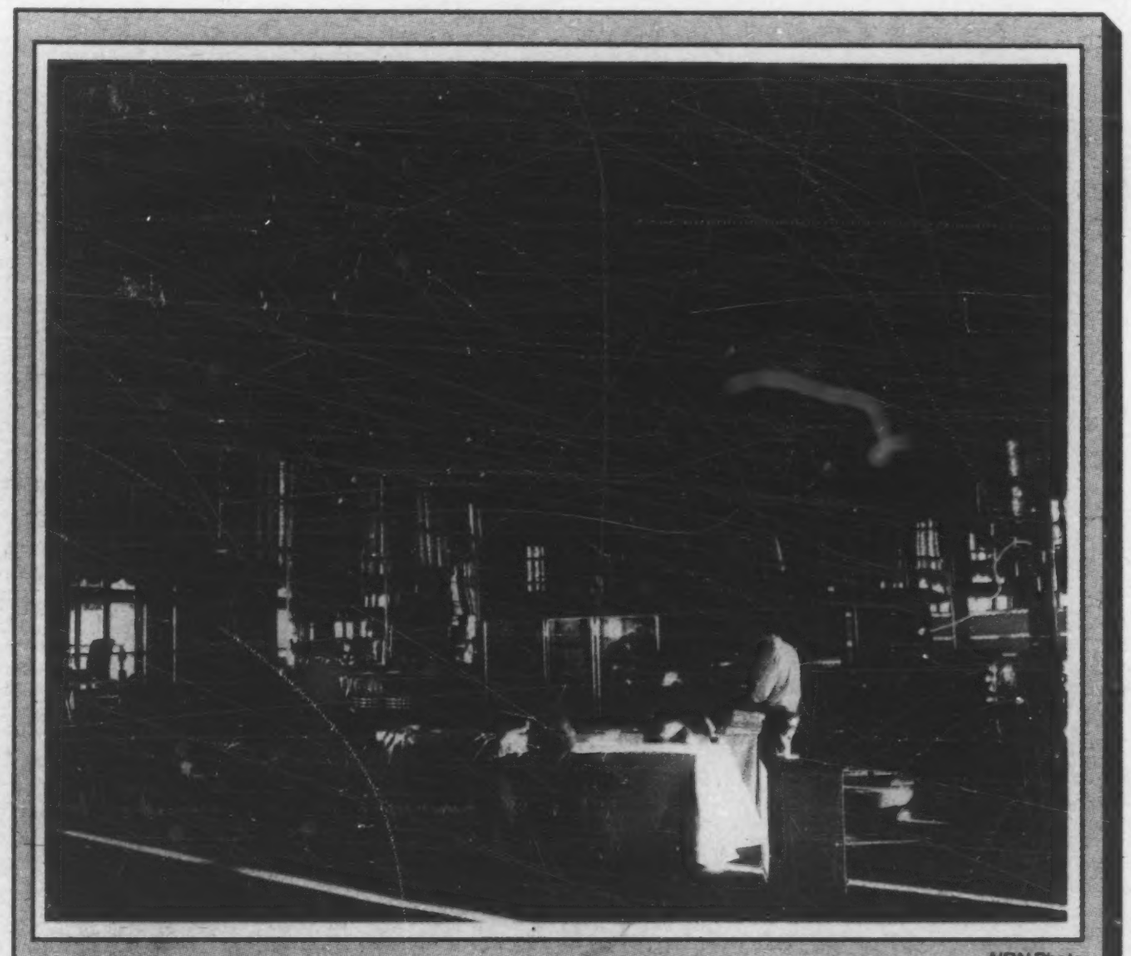
Ditka's, City Lights have winning year

Midwest Report page 52

Nation's
Restaurant News®
The Weekly Newspaper of the Food-Service Industry

Vol. 22, No. 1 | Published every Monday by Lebhar-Friedman Inc.; $3 a copy, $26.50 a year | January 4, 1988



NRN Photo

Rainbow Room workers scurry to set up for a preopening party.

Rainbow Room reopens doors after 2 years and $20 million

By Joe Edwards and Paul Frumkin

NEW YORK — Joseph Baum and Alan Lewis, who have created and operated some of the city's most famous restaurants, including The Four Seasons and Windows on the World, have reopened the 53-year-old Rainbow Room after a two-year, $20 million-plus renovation.

Perched in American Modernism splendor 65 floors atop Rockefeller Center, The Rainbow Room is part of a two-floor complex featuring three public restaurants, banquet rooms, and the members-only Rockefeller Center Club.

The restaurants and club are owned by the Rockefeller Group and man-

*(See **RAINBOW**, page 72)*

Industry lobby loses fight to block tip tax

Employers face Social Security levy

By Ken Rankin

WASHINGTON — The controversial legislation requiring food-service operators to pay Social Security payroll taxes on employee tips appeared headed for final passage late last month.

Restaurant industry leaders said they had abandoned hope of defeating the measure, which would increase food-service labor costs by more than $100 million in 1988 without providing any additional benefits for industry employees.

Rankin's commentary
How many defeats like this can food service take?
Page 17

The measure was part of the compromise federal deficit reduction measure, which was facing final enactment.

But with the House, the Senate, and the president all in agreement on that tip tax provision, "it would take a miracle to block it now," a spokesman for the National Restaurant Association told Nation's Restaurant News.

The idea of requiring restaurateurs to pay taxes on non-wage gratuities of

*(See **TIP TAX**, page 68)*

Wendy's erases 200 jobs in new round of cost cuts

By Peter J. Romeo

DUBLIN, Ohio — Wendy's International has sunk an ax into its payroll again, laying off at least 100 administrative and field-level employees and reassigning as many as 100 others to different jobs.

The elimination of 200 positions follows by seven months the dismissal of 160 headquarters staffers. In total, 45 percent of the persons on Wendy's payroll a year ago have either been discharged or reassigned.

The limping fast-food giant expects to lay off more staffers this year in its drive to bolster profits by slashing costs, a spokesman said. An accounting firm has been hired to assist in identifying positions that could be terminated.

Madigan

In a separate development, Wendy's longtime chief financial officer, Joseph Madigan, resigned "to pur-

*(See **WENDY'S**, page 72)*

NRN upgrades F.I.R.S.T.

System speeds info on products

NEW YORK — Nation's Restaurant News, the weekly newspaper of the food-service industry, is upgrading its F.I.R.S.T. service to readers and making it easier than ever before to use.

F.I.R.S.T. details
Page 18
Instructions
Page 70

NRN's F.I.R.S.T. system allows readers to order additional information from NRN advertisers by calling a toll-free 800 number—anytime 24 hours a day seven days a week.

The improvement eliminates the need for a special code number. Now readers need only the mailing label at the top of the front page to get started.

Complete, step-by-step instructions will appear every week in the Advertiser Index.

FOOD WATCH

Meat loaf makes a comeback

Meat loaf, that ground-beef staple scorned by countless middle-class families throughout the 1950s and 1960s, has re-emerged as the comfort-food favorite of the 1980s.

In New York slabs of baked beef are served as an open-faced sandwich in Dine-O-Mat, a nostalgia-steeped entrant in the trendy East Side dining scene. The meat loaf is served with mashed potatoes and an apple muffin for $6.95.

At Cyril's, a fashionable new tablecloth restaurant in Los Angeles, meat loaf has been included on the menu.

The Nashville, Tenn.-based Winners Corp. features meat loaf in its two fast-food chains, Mrs. Winner's Chicken 'N Biscuits and Southern Cafe. The dish is offered periodically as a daily special.

The sudden surge in the popularity of meat loaf has not gone unnoticed by coffee shop chains, either. Shoney's, also based in Nashville, is testing a meat-loaf-and-mashed-potatoes platter in select units. And meat loaf has proved a hot seller in tests within the Columbus, Ohio-based Bob Evans chain, an executive said.

MONGOLIAN BARBECUE ADDS SIZZLE — MENU TRENDS, PAGE 11

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Watch for these Focus reports

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Top-volume independents ..... Jan. 25
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Ready-to-eat: Specialty shops ..... Feb. 22
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NEWS DIGEST

Calif. ups minimum wage, adopts 'subminimum'

SAN FRANCISCO — California's minimum wage will rise July 1 to $4.25 an hour, the highest pay floor in the nation and a 27-percent leap from existing California and federal minimums of $3.35.

The state Industrial Welfare Commission also voted here to adopt a controversial "subminimum" wage of $3.50 for workers who earn at least $60 a month in tips. That action came over the objections of commissioner Michael Callahan, a former official of the Hotel Employees and Restaurant Employees International Union, who argued that the special wage category discriminates against waiters and waitresses.

The new minimums, expected to influence pending wage legislation battles in other states and in Washington, will directly affect an estimated 600,000 bottom-tier workers and most restaurants in California.

Florida ad tax repeal seen as curbing other states' moves

TALLAHASSEE, Fla. — The repeal of a controversial 5-percent tax on all advertising appearing in Florida is widely expected to spare restaurant chains and other high-volume advertisers from encountering similar revenue-raising measures in other states.

Florida governor Bob Martinez, bowing to extreme pressure from a slew of advertisers, convened the state legislature to repeal the tax some five months after it went into effect.

Forgione, Weinstein join to open N.Y. restaurant

NEW YORK — Larry Forgione, chef-owner of the highly acclaimed An American Place, and Michael Weinstein, creator of such well-known dining spots as America and Ernie's, have teamed up to open a new restaurant here called Pierpont.

The 170-seat place, which is slated to open in February in the Murray Hill section, will comprise two concepts. The main floor restaurant will feature a menu similar to that of An American Place, although selections will be ordered à la carte. Upstairs, a lunch menu will include moderately priced main course soups, salads, and sandwiches. From 4 p.m. until closing, the restaurant will offer a continuous array of hors d'oeuvres priced at $2, $3, and $4.

LeRoy hires Kathy Casey for Maxwell's Plum

NEW YORK — Flamboyant restaurateur Warner LeRoy has hired Kathy Casey, the celebrated young Northwestern chef, to take over the kitchen at Maxwell's Plum, the showy Upper East Side restaurant and bar.

Casey, who rose to prominence while she was at Fuller's, an American restaurant in Seattle, accepted the job at Maxwell's after plans to open her own West Coast restaurant had fallen through. She is scheduled to join Maxwell's in mid-February, after the restaurant is renovated.

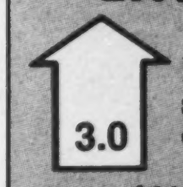
LeRoy has attempted to put a well-known American chef at the helm of Maxwell's for several years. Last year he lured Mark Peel and Nancy Silverton away from Los Angeles' Spago. But the husband-and-wife team quit nine months later because of Maxwell's volume of about 1,200 meals per day.

Pantera's sells McCord's to Spillman for $5.4 million

ST. LOUIS — Pantera's Corp., the new parent of the Pizza Inn chain, said it had sold its seven-unit J.T. McCord's dinner house chain for $5.4 million to a group led by Joseph Spillman, who failed last year to outbid Pantera's for Pizza Inn.

Pantera's said the proceeds are being used as working capital. The company, which also operates the Pantera's pizza chain, is required by a loan agreement to keep a specified amount of working capital on hand.

Index rises 3.0



NEW YORK — The Nation's Restaurant News Index of 84 stocks rose 3.0 points in the week ended Dec. 18 and closed at 153.7.

The Dow Jones Industrial Average of 30 blue chips, meanwhile, soared a record 108.26 points and finished the week at 1,975.30. Analysts said investors ignored the record-high trade deficit figure for October after Federal Reserve chairman Alan Greenspan called it an "aberration."

On NRN's expanded list of 156 stocks—representing restaurant, lodging, diversified, and food-service manufacturing and distributing companies—114 advanced in price, 25 declined, and 17 stayed the same. Winners Corp. led the percentage price gainers, rising 75 cents, or 50 percent, to $2.25.

Seventy-three issues traded at volumes above their normal trading averages, while 80 were less active than usual, and three were unchanged. Maverick Restaurants showed the biggest volume surge, about 552 percent above average, at 174,700 shares.

More financial news, pages 70-71

Schwegmann to pair drive-thrus, supermarkets

NEW ORLEANS — Striving to create a symbiosis between restaurants and supermarkets, retailing magnate John Schwegmann and three partners have purchased an unspecified stake in Checkers, a fledgling drive-thru-only burger chain.

The investors' group, L.M.T. Enterprises, said it plans to erect drive-thrus on the parking lots of some of Schwegmann's 15 supermarkets. The restaurants and stores will share staffs, with employees switching to the food-service outlets during meal times.

The plan also calls for Checkers units to purchase supplies through Schwegmann's supermarkets to realize economies of scale.

Holiday taps Meeks to head three lodging chains

MEMPHIS, Tenn. — In a reshuffling of top management, Holiday Corp., the world's largest innkeeper, has appointed senior vice president D. Michael Meeks to the additional post of hotel group president.

Philip Sartre, president of Holiday's gaming group, was assigned the added post of corporate senior vice president.

The changes follow Richard Goeglein's resignation as president. Holiday chairman Michael Rose has assumed Goeglein's former duties.

In his newly created position, Meeks is responsible for the operations of Holiday's Holiday Inn, Hampton Inn, and Embassy Suites hotel chains.

Ingredients alert will spur panic, operators caution

SACRAMENTO, Calif. — California restaurateurs, who earlier voiced concerns about a now-scrapped proposal to post warnings about potentially dangerous chemicals in individual menu items, recently told state officials that a generic warning under consideration could needlessly promote panic.

The state's health and welfare department has asked for input on labeling proposals it will enact in compliance with Prop. 65, a voter-approved toxic waste initiative that requires notification whenever chemicals believed to be carcinogenic are used or found naturally in products.

Restaurant and hotel industry leaders told state officials that placement of "WARNING" at the beginning of the proposed generic labeling notice is too strong.

"We're asking to eliminate the capitalized 'WARNING' in favor of 'Notice' or 'For Your Information,'" said Jo-Linda Thompson, legislative council for the California Restaurant Association.

Kaufman sells Pioneer Take Out Corp.

By Richard Martin

LOS ANGELES — Pioneer Take Out Corp., a 270-unit chain of fried-chicken stores based in Southern California, has been sold by founder H.R. "Rick" Kaufman to an investment group led by former California legislator Terrence B. Goggin.

Terms of the sale were not disclosed, and none of the principals was immediately available to comment.

Goggin, backed in the transaction by investment banker Robert B. MacDonald, was the fast-food franchisor's attorney during its recent troubles with the California Department of Corporations.

In August the state agency ordered the 26-year-old chain to stop selling franchises until it could demonstrate financial solvency. By October the company had regained its ability to franchise after filing new financial reports.

Earlier, a group of Pioneer franchisees that owns 77 of the chain's 240 franchised outlets sued the company for more than $25 million. The group accused Pioneer of fraud, antitrust violations, breach of contract, negligent misrepresentation, and the inappropriate lending of advertising payments to some of Kaufman's other businesses.

After a meeting with Goggin and MacDonald, dissident franchisees said they were encouraged and enthused by the change in management at Pioneer.

Kaufman denied the allegations and, with a group of supportive franchisees, countersued for more than $40 million in damages.

Pioneer's October financial statements pegged the company's net value at $8.5 million, its assets at about $41 million, and its debts at approximately $32.5 million.

However, the audit report placed Pioneer's more probable net value in the $3 million range when it raised doubts that the company could ever recoup some $5.3 million in loans to Kaufman's holding company, Transpacific Industries Corp.

The Los Angeles-based chain, which also operates in Arizona, Hawaii, and Indonesia, grossed $84.9 million in 1986, down from $91.4 million in 1985 and $103.4 million in 1984.

After a meeting with Goggin and MacDonald, dissident franchisees said they were encouraged and enthused by the change in management at Pioneer, which they said had been the main goal of their litigation. Leaders of the rebel faction said they were considering dropping their lawsuit.

Goggin, who was a Democratic assemblyman from San Bernardino from 1974 to 1984, assumed the post of chief executive of Pioneer, and MacDonald became the company's chief financial officer. They named John Husing as executive vice president and interim director of operations.

Franchisees said the company's new owners promised to increase support for the chain, including adding $1 million to its advertising budget.

Farkas engineers Victoria Station onto right track

Buys trademarks and 11 units

By Alan Liddle

STRATFORD, Conn. — Victoria Station, the once-mighty railroad theme restaurant chain that filed bankruptcy in May 1986, has pulled back onto the main line with 11 units in tow and food-service veteran Lowell Farkas at the controls.

Farkas, Horn & Hardart's chief operating officer from 1973 to 1982, is president and chief operating officer of newly formed Victoria Station Acquisition Corp., which is headquartered in Stratford. His company, with the authorization of a bankruptcy court judge, purchased selected assets from the struggling Larkspur, Calif.-based Victoria Station last month.

Among the assets acquired by Farkas' company are Victoria Station's trademarks and 11 restaurants in Boston, metropolitan New York, and Dade County, Fla. The purchase price was approximately $6.5 million in cash and the assumption of $1 million in tax liability.

To complete the transaction, Victoria Station Acquisition Corp. must also turn over 10 percent of its newly issued stock to shareholders of the old chain's common stock. Another 10 percent of the stock, as well as a million shares of preferred stock with a liquidation value of $1 million, must go to general unsecured creditors, who claim they are owed $38 million.

The remaining assets of Victoria Station, which operated about 45 units at the time it filed for Chapter 11 protection from creditors, have been or will be sold to help pay off debts. In a debtors' disclosure filed with the courts, the chain said it owed approximately $31 million but acknowledged that creditors' claims totaled closer to $60 million.

Farkas is being bankrolled in his efforts to steer Victoria Station back onto the right track by 605 Partners, a New York investor group that includes portfolio manager Michael Steinhardt and CPA Raymond Wechsler. Citicorp also has equity in the new company, Farkas said.

He noted the 11 restaurants his group is buying are "profitable and make a nice base on which to grow a company."

Victoria Stations are "the prime rib house in the markets they are in, and prime rib is still the most popular item to be consumed outside the home," Farkas said. "If we selectively adjust the menu—I believe it may have become a little too broad—we can compete very well in the marketplace," he added.

In an effort to maximize sales per square foot at some of the restaurants, which range in size from 7,500 square feet to 10,000 square feet and seat from 260 to 300 people, Farkas said he would open a second franchised concept on site. He said products from the second concept, possibly an ice cream or bakery operation, would be incorporated onto the full-service restaurant's menu.

Farkas said some of the incentive for trying to grow the chain's top line comes from the favorable long-term leases it holds. Eight of them are land-only agreements, he said, which means Victoria Station Acquisition Corp. enjoys occupancy costs well below the market average.

Projections in the bankruptcy reorganization plan indicate that Victoria Station Acquisition Corp. expects to generate total sales of about $18.6 million and $2.1 million in cash flow its first year.

Victoria Station, known for its boxcar restaurants and prime rib, opened its first unit in San Francisco in 1969. By the late 1970s it had become a 100-plus-unit juggernaut headed for trouble.

The chain's demise has been attributed by analysts to a number of things, including:

- The boxcar design that made it impossible to move away from the railroad theme as diners grew tired of it.
- America's growing interest in fish and poultry.
- A myriad of expansion-related problems, including poor site selection and lease agreements and failure to concentrate enough units in a given geographic area to make marketing and management cost effective.

Peter J. Romeo promoted to news editor at NRN

NEW YORK — Peter J. Romeo, senior editor at Nation's Restaurant News for the past three years, has been promoted to news editor with increased responsibilities over the reporting staff.

He reports to executive editor Rick Telberg, who reports to Charles Bernstein, the chief editor.

NRN Photo

Peter J. Romeo

Romeo started his career as senior editor at Beverage Industry, a twice-a-month newspaper published by Magazines for Industry.

He went on to become editor of Fast Service/Family Restaurants and Kitchen Planning magazines, both published by Harcourt Brace Jovanovich and then editor of Hotel & Motel Management, a monthly newspaper published by Harcourt Brace Jovanovich.

He holds two bachelor of arts degrees, in journalism and in history, both from New York University in New York City, from which he graduated magna cum laude.

In other changes in NRN editorial operations, the copy desk has been expanded.

New desk editors are Jeanne Isenberg, former editorial assistant at Simon & Schuster Inc.; Peter Keegan, former page makeup coordinator at CBS Magazines Inc.; and Katherine Rabin, former sports editor of The Mexico City News.

They join copy editor Michael Schrader and report to senior desk editor Tracey Taylor Woodard.

NRN publisher joins Variety

NEW YORK — Arthur Anderman, publisher of Nation's Restaurant News and vice president of parent Lebhar-Friedman Inc., has resigned to join Cahners Publishing Inc. as executive vice president of its entertainment division, which publishes daily and weekly Variety, a show business newspaper.

He was publisher of National Home Center News, another Lebhar-Friedman newspaper, before being named NRN publisher in 1985.

CORRECTION

"Chains deck the halls with plush toy promos," page 3, Dec. 14, misidentified the manufacturer of Furskins dolls as the "creator of the Cabbage Patch Kids."

Although the plush toys were originally conceived by Xavier Roberts, who also invented Cabbage Patch dolls, Furskins are manufactured by a subsidiary of Hallmark Co. under a licensing agreement.

Nation's Restaurant News

is published by
LEBHAR-FRIEDMAN INC.
425 Park Ave., New York, N.Y. 10022
212 371-9400
Subscription Services, ext. 379 or 419
Cable Address: LEBHAFRIED
Panafax: 212 838-9487

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NATION'S RESTAURANT NEWS
(ISSN 0028-0518)

Published weekly, every Monday except the last Monday in December. Subscription rate: Food-service operators and wholesalers/distributors, one year $26.50; two years $44.50. Auxiliary (consultants, architects, designers, manufacturers, suppliers, schools) and all others: $59. Single copy rate $2.00. Foreign subscriptions (air mail only) $500 per year. Second-class postage paid at New York, N.Y., and additional mailing offices.

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Six weeks' notice is requested. Please send old and new address and zip codes. If possible, include label portion of publication cover. For subscription problem, send full details, including mailing label and phone number, to Circulation Fulfillment Director, above address.

Vol. 22, No. 1 January 4, 1988

FOCUS | NRN

FACING A YEAR OF SLOW GROWTH

Fears of recession and inflation prompt consumers to cut back spending on discretionary items, but restaurant operators claim they 'are prepared'

By Don Jeffrey

The food-service industry faces a year of slower growth as debt-burdened consumers, fearing that the stock market crash signaled a downturn in the economy, cut back on their spending.

Many experts are projecting sluggish gains in disposable personal income. If consumers have less to spend on discretionary items, analysts argue, restaurant and bar sales will suffer.

Restaurant operators, however, say they are prepared for the worst, having trimmed the fat out of their budgets with massive layoffs and the disposal of underperforming units. Some believe a recession would boost their sales as diners trade down to lower-ticket eating places.

Besides a downturn or recession, the other economic nightmare—renewed inflation—also looms as a possibility for 1988. The decline in the dollar has put pressure on prices, which have been rising lately at a faster rate than in recent years.

Operators say they are prepared for that scenario as well. Some welcome inflation as a reason for raising prices and thus boosting sales.

"Our industry runs best at 6-percent inflation," said Mitchell Boyd, chief executive of Shoney's Inc., at a recent investors' conference.

The Blue Chip poll of nearly 50 economists projected a 4.3-percent rise next year in the Consumer Price Index.

Moreover, since the stock market crashed in October, the polled experts have reduced their 1988 projections of real growth in the Gross National Product to 2.0 percent from 2.8 percent, and disposable personal income, to 2.3 percent from 2.7 percent.

Despite the gloom and apprehension in some circles, though, the principal forecaster for the food-service industry, the National Restaurant Association, predicts good sales gains in 1988.

The NRA projected a 7.1-percent increase in sales this year at restaurants and bars and contract and institutional feeders, to $213.5 billion. If inflation is factored out, that would be a 2.9-percent real sales gain, compared with an estimated 2.7-percent rise in 1987.

But securities analysts have said many chains posted meager increases, if any, in real sales last year. Few experts are predicting significantly better results this year.

The Commerce Department's monthly retail sales figures showed a drastic decline in revenue growth at eating and drinking places in 1987, from a year-to-year high of 13.5 percent in February to lows of 1.8 percent in August and 1.9 percent in November.

Restaurant companies, in tandem with consumers, may also be trimming their spending. The decline in the stock market could make it more difficult for businesses to raise money for expansion.

Some experts disagree. "Surveys of businesses show nobody's really changed plans," said Robert McGee, an economist with Irving Trust Co. in New York. "And there's no evidence consumers have changed plans."

Before the crash, most chains had cut back their unit expansion because many markets were glutted with restaurants. That oversupply caused cut-throat competition for too few diners. As customer traffic declined, overheated discounting squeezed margins.

Because of the industry's slow growth and the collapse of the stock market, restaurant stocks generally performed poorly in 1987. The Nation's Restaurant News Index of 84 food-service issues closed at 150.7 on Dec. 11, down 10.7 percent from the figure for the same week one year earlier. In contrast, the Dow Jones Industrial Average of 30 blue-chip stocks fell 2.4 percent, to 1,867.04.

After a recent industry stock conference Steven Rockwell, restaurant analyst with Alex. Brown & Sons, said investors felt "no sense of urgency to buy any of the stocks. They were there to look over the merchandise and pick out the companies they thought would be attractive over the long term."

The economic fallout from the crash extends to other areas as well.

Mergers and acquisitions, which helped fuel the five-year bull market, are less attractive. Some deals proposed before the market plunge were endangered, such as Western Steer's, while others closed at lower purchase prices, such as that of Servico and Restaurant Associates. Allegheny Beverage had proposed selling contract feeder Servico to its managers for $500 million, but the deal closed at $450 million.

Some experts believe the great era of acquisitions came to an end on Black Monday last October, when investors fled from highly speculative deals, such as leveraged buyouts financed largely by high-risk junk bonds.

Despite a slowdown in mergers, though, many industry observers see a continuation of the trend toward consolidation. The big will get bigger, they say, because only large corporations will have the cash flow or other financial resources to expand. For example, the hottest trend in restaurant chain concepts—Italian cuisine—receives its greatest thrust from conglomerates like General Mills, with its Olive Garden, and Imasco, with Grisanti's.

Meanwhile, the opportunities for entrepreneurs to build new restaurant concepts into chains are more limited than ever before. No one is expecting a burst of initial public offerings of stock in 1988. And venture capital does not flow much into the restaurant industry.

One of the hottest financial trends in the past two years—the development of, or restructuring of restaurant corporations into, master limited partnerships—is likely to wane in the next few years. Most investors leaped at the chance to buy shares of a partnership, because its income, unlike a corporation's, is not subject to double taxation.

But Congress is considering bills that would revoke or modify the tax-sheltering aspects of the partnership. Nevertheless, analyst Ward Lindenmayer of Sutro & Co. believes that if Congress changes the tax structure, well-managed partnerships—like Perkins Family Restaurants—could simply switch back to corporation status and thrive.

Another possible action by Congress that would strain the finances of restaurant companies is the raising of the federal minimum wage. Although most operators say they pay their workers above the minimum, they unanimously believe a higher base rate will force all employee wages upward. And that will further pinch restaurateurs' shrinking profit margins.

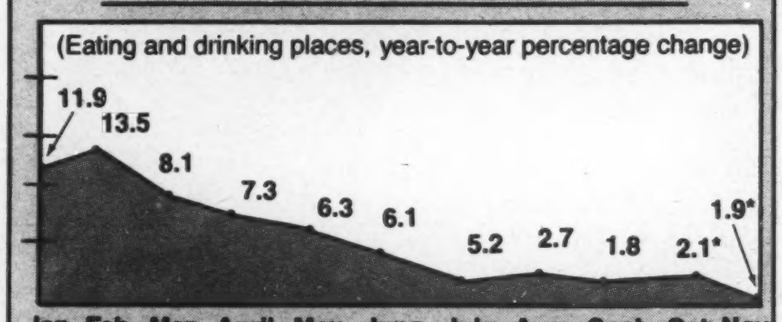
But a higher minimum wage is not the only labor problem the industry faces. Government statistics point to an increasingly tight labor market: Unemployment in November fell to 5.9 percent, from 6 percent. That means continued difficulty in recruiting managers and hourly employees.

While analyses show that net profits are higher than ever before, Ron Paul of Technomic Inc. says the figures are misleading. According to his sample of 100 public restaurant companies, total net income grew 42 percent in the third quarter of 1987, to $511 million. But more than two-thirds of that improvement came from just McDonald's, Pepsico, and Wendy's.

Interest rates, meanwhile, are not expected to rise rapidly.

SALES GROWTH SLOWS IN 1987

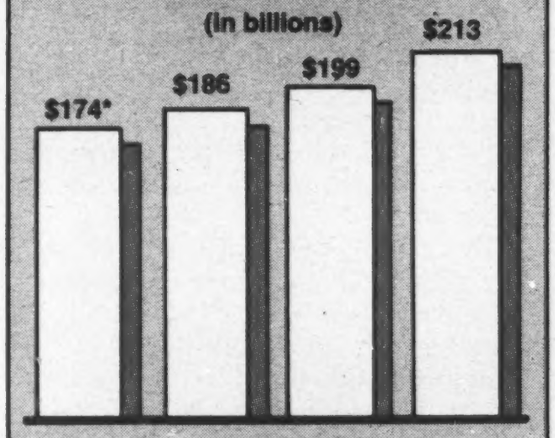
(Eating and drinking places, year-to-year percentage change)

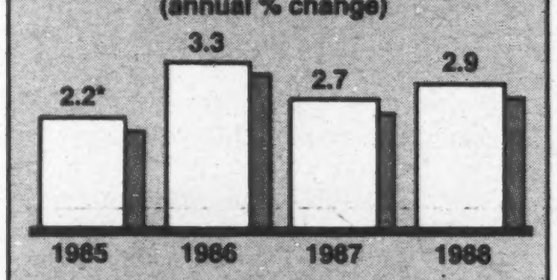


Figures unadjusted for inflation or seasonal variations.
Eating and drinking places. *Subject to revision
Source: U.S. Department of Commerce

TOTAL FOOD-SERVICE INDUSTRY SALES

Sales Real Growth**





*These are actual figures; others are estimates
**Inflation is factored out
Source: National Restaurant Association

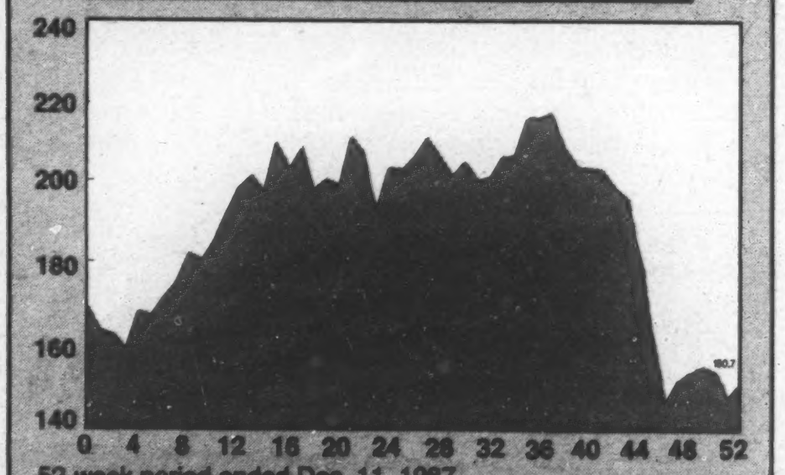
FORECASTERS GROW GLOOMIER

(Changes in 1988 projections after stock market crash)

	Real growth in GNP in % over 1987	
	Oct. projection	Nov. projection
Bostian Research Associates	−4.1	−3.9
Prudential Insurance	4.3	3.3
Irving Trust	3.2	3.2
Harris Trust & Savings	4.4	3.2
Morgan Guaranty	2.9	2.6
Dean Witter Reynolds	3.0	2.3
Equitable Life Insurance	2.8	1.9
Bank of America	2.4	1.8
E.I. du Pont	3.1	1.4
Merrill Lynch Economics	2.5	1.4
Conference Board	2.1	1.3
Arthur D. Little	−0.6	−1.5
Business Economics Inc.	−2.0	−2.0

Source: Blue Chip Economic Indicators

NRN RESTAURANT STOCK INDEX



52-week period ended Dec. 11, 1987
Base Value = 100: Oct. 28, 1983
Source: Media General Financial Services Inc.